

Survey on Tax Treatment of Public Health Commodities

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Partnerships
for Health
Reform

PHR



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Partnerships
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Mission

The Partnerships for Health Reform Project (PHR) seeks to improve people's health in low- and middle-income countries by supporting health sector reforms that ensure equitable access to efficient, sustainable, quality health care services. In partnership with local stakeholders, PHR promotes an integrated approach to health reform and builds capacity in the following key areas:

- ▲ *policy formulation and implementation*
- ▲ *health economics and financing*
- ▲ *organization and management of health systems*

PHR advances knowledge and methodologies to develop, implement, and monitor health reforms and their impact, and informs and guides the exchange of knowledge on critical health reform issues.

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Abstract

This report summarizes the results of a survey of 44 countries on the tax treatment of public health commodities. The survey, which was conducted by the United States Agency for International Development-funded Partnerships for Health Reform Project in late 1997, provides a view of which countries have granted tax relief on purchases of any of three public health commodities: vaccines, oral rehydration salts, and contraceptives. The report also contains information on how various tax policies have been implemented and what the perceived impact to date has been, summarizes the process for granting tax waivers in some countries, and discusses the obstacles to finding reliable information on achieving the intended impact of tax relief and to measuring the actual impact.

This report makes information on the survey results available to a broader audience, some members of which may be interested in pursuing similar reforms in their own countries. The results of this survey are already being used to help support policy dialogue in countries that are considering tax relief designed to help achieve public health goals.

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Acronyms

CDC	Cambodian Development Council
IUD	Intrauterine Device
MOH	Ministry of Health
NGO	Non-Governmental Organization
ORS	Oral Rehydration Salts
PHN	Population, Health, and Nutrition
PHR	Partnerships for Health Reform Project
POLICY	The Policy Project
PROFIT	Promoting Financial Investments and Transfers Project
UNICEF	United Nations' Children Fund
USAID	United States Agency for International Development
VAT	Value-Added Tax

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Executive Summary

In the health field, countries use tax waivers, reductions, and exemptions as policy tools to help achieve public health objectives such as reducing consumer prices of these products, increasing the supply of these products and related services, and reducing recurrent ministry of health budgetary needs for providing these commodities to the population.

In late 1997, the United States Agency for International Development (USAID)-funded Partnerships for Health Reform Project surveyed USAID missions and United Nations' Children Fund countries in order to learn whether countries had granted tax exemptions, waivers, or reductions for the purchase of any of three key public health commodities (vaccines, oral rehydration salts, and contraceptives). The survey provides a view of which countries have granted tax reform, contains information on how various tax policies have been implemented, and summarizes the process for granting tax waivers in some countries. Notably, none of the responses provided data on the impact of tax reform and this report discusses the obstacles to achieving and measuring that impact.

Specifically, survey findings showed that:

- ▲ Taxes paid directly by the purchaser vary depending on the type of commodity, buyer, and transaction.
- ▲ The public sector benefits most often from the most substantial form of tax relief (waivers and exemptions), while the private for-profit sector is the least likely to benefit from any form of tax relief.
- ▲ There is little difference in the percentage of countries that granted import tax relief from the percentage that granted relief on value-added tax or sales taxes.
- ▲ Tax status varies more by buyer than by product; that is, there is little difference in the tax treatment among the three commodities within a country.
- ▲ The process for granting tax waivers varies greatly from country to country, and in some cases, waiver procedures are so bureaucratic they discourage potential beneficiaries from attempting to file for a waiver.
- ▲ There are many obstacles to achieving the intended impact of tax relief and to measuring the actual impact.

To maximize the probability of success, policy makers should take time to clarify objectives and anticipate obstacles to achieving those objectives and factors that create unintended effects. Countries should prepare new tax regulations carefully and then implement those regulations, especially in the case of tax waiver procedures, in a manner that promotes public health objectives. Ideally, countries should measure actual impact in order to document success or take corrective action.

Ministries of health and private providers who purchase vaccines, oral rehydration salts, and contraceptives can use the results of this survey to strengthen their case in arguing for tax waivers for these three key public health commodities in their own countries. Nearly three-quarters of the

countries which responded to the survey reported some sort of tax relief. Extending tax relief to all three public health products and all three sectors (public, private for-profit, and private non-profit) would maximize the potential public health benefits. Granting tax exemptions rather than waivers or reducing the administrative burden associated with obtaining waivers would also be likely to result in additional benefits.

1. Introduction

Countries use tax waivers, reductions, and exemptions as policy tools to promote certain sectors, encourage consumption of certain products, or pursue other goals. In the health field, the primary objective of tax relief on public health commodities such as vaccines, oral rehydration salts (ORS), and contraceptives is to lower the cost of these commodities. This, in turn, can help achieve public health objectives such as:

- ▲ *reducing consumer prices of these products* and thus making them more financially accessible to the population as a whole;
- ▲ *increasing the supply of these products and related services* by enabling private health providers to procure these commodities at lower cost and thus increase their profit margins; and
- ▲ *reducing recurrent ministry of health (MOH) budgetary needs* for providing these commodities to the population, particularly where the MOH provides these commodities free of charge or at highly subsidized prices.

Tax exemptions, unlike tax reductions or waivers, can produce the additional benefits of:

- ▲ reducing administrative burden on all buyers by eliminating the need for tax waiver forms and/or record-keeping of taxes paid, and
- ▲ reducing delivery times for all buyers by cutting out supply chain steps.

The ultimate goal of these policy tools is to improve the health status of the population by increasing the population's use of these commodities and associated services. In the case of vaccines, ORS, and contraceptives this increased use would be manifested by increases in immunization coverage rates, and contraceptive prevalence rates, and reduction in infant and child mortality rates due to diarrheal disease.

However, because lessening the tax burden on any product reduces government revenue, countries may find it difficult politically to consider implementing tax waivers, reductions, or exemptions. Information on other countries' experiences in undertaking these important, but sometimes difficult, fiscal reforms may help decision makers who are currently considering tax relief on public sector commodities.

In late 1997, the United States Agency for International Development (USAID)-funded Partnerships for Health Reform (PHR) Project collected information from USAID missions and United Nations' Children Fund (UNICEF) country offices in order to learn whether countries had granted tax exemptions, waivers, or reductions for the purchase of three specific public health commodities: vaccines, ORS, and contraceptives. If countries responded that waivers or exemptions existed, PHR asked additional questions in order to find out how the policies had been implemented and what the perceived impact to date had been. The results of this survey may help support policy dialogue in countries that are considering tax relief designed to help achieve public health goals.

2. Survey Findings

2.1 Response Rate

PHR and the Health and Nutrition Office of the Center for Population, Health, and Nutrition (PHN) of USAID's Global Bureau e-mailed a brief survey to USAID missions, UNICEF offices, and PHR project offices in 44 countries between October and December 1997. The survey asked only about purchased commodities since donated commodities are almost universally tax exempt. Responses were received from 22 countries, a response rate of 50 percent. The countries which responded to the survey were Cambodia, Indonesia, Jordan, Morocco, and Philippines in the Asia/Near East Region; Djibouti, Eritrea, Ghana, Kenya, Madagascar, Malawi, Mozambique, Senegal, Tanzania, Uganda, Zambia, and Zimbabwe in the Africa Region; and Bolivia, Brazil, Dominican Republic, Guatemala, and Nicaragua in the Latin America and Caribbean Region.

2.2 Summary of Results

Survey results show that taxes paid directly by the purchaser varied depending on the type of:

- 1) Commodity: vaccines, ORS, or contraceptives;
- 2) Buyer: public sector, private non-profit, or private for-profit; and
- 3) Transaction: whether the product was imported or purchased locally. Imports are purchases from an entity outside the country (e.g., a foreign manufacture or international distributor) which results in customs and duties to the buyer. Local purchases are purchases from an entity inside the country (e.g., a local manufacturer, distributor, or retailer) which results in value-added tax (VAT) or sales taxes.^{1 2}

Therefore, Table 2-1 presents the responses separated by these three variables. Responses are standardized according to the following key:

na	information was not available for that commodity or buyer
pay tax	the buyer is required to pay taxes
reduc	refers to a government decision to reduce tax rates
waiver	the buyer can file to have a tax waived; eligibility and procedures are different in each country
exempt	the buyer or commodity is exempt by law from taxes
some	some mix of tax exemption, waiver, or reduction or response was not explicit enough to classify

¹A distributor is a company that buys from manufacturers and resells to retailers, whereas a retailer is an entity that sells directly to the consumer/end-user.

² In the case of in-country purchases where the local distributor or retailer procures imported commodities, the distributor or retailer also may have previously paid customs and duties to bring the commodities into the country. This depends on whether private for-profit firms (the category into which distributors or retailers fall in the table) pay taxes on products they import. If so, these import taxes and duties would normally be passed on from the distributor/retailer to the buyer in the form of a higher purchase price before sales and value-added taxes are added.

Table 2-1
Survey of Tax Treatment of Selected Public Health Commodities - Final Results (December 31, 1997)

				TAXES ON IMPORTS					VAT & SALES TAX				
	Region	Country	Buyer (2)	Vaccines	ORS	Contraceptives (1)			Vaccines	ORS	Contraceptives (1)		
						All Methods	Condoms	Hormonals			All Methods	Condoms	Hormonals
1	ANE	Cambodia	Public	exempt	exempt	exempt			na	na	na		
			Private NP	some	some	some			na	na	na		
			Private FP	pay tax	pay tax	pay tax			na	na	na		
2	ANE	Indonesia	Public	exempt	exempt	exempt			exempt	exempt	exempt		
			Private NP	waiver	waiver	waiver			waiver	waiver	waiver		
			Private FP	waiver	waiver	waiver			waiver	waiver	waiver		
3	ANE	Jordan	Public	exempt	exempt	exempt			exempt	exempt	exempt		
			Private NP	exempt	exempt	exempt			exempt	exempt	exempt		
			Private FP	exempt	exempt	exempt			exempt	exempt	exempt		
4	ANE	Morocco (3)	Public	reduc(2.5%)	na	pay	pay 10%	pay 17.5%	reduc(7%)	na	pay (20%)		
			Private NP	reduc(2.5%)	na	pay	pay 10%	pay 17.5%	reduc(7%)	na	pay (20%)		
			Private FP	reduc(2.5%)	na	pay	pay 10%	pay 17.5%	reduc(7%)	na	pay (20%)		
5	ANE	Philippines	Public	na	na	some			na	na	some		
			Private NP	na	na	some			na	na	some		
			Private FP	na	na	some			na	na	some		
6	Africa	Djibouti	Public	na	na	na			na	na	na		
			Private NP	na	na	pay tax			na	na	pay tax		
			Private FP	pay tax	pay tax	pay tax			na	na	pay tax		
7	Africa	Eritrea	Public	pay tax	pay tax	pay tax			pay tax	pay tax	pay tax		
			Private NP	exempt (4)	exempt (4)	exempt(4)			exempt (4)	exempt (4)	exempt(4)		
			Private FP	pay tax	pay tax	pay tax			pay tax	pay tax	pay tax		
8	Africa	Ghana (5)	Public	pay tax	pay tax	pay tax			pay tax	pay tax	pay tax		
			Private NP	pay tax	pay tax	pay tax			pay tax	pay tax	pay tax		
			Private FP	pay tax	pay tax	pay tax			pay tax	pay tax	pay tax		

Table 2-1 continued

				TAXES ON IMPORTS					VAT & SALES TAX				
				Contraceptives (1)					Contraceptives (1)				
	Region	Country	Buyer (2)	Vaccines	ORS	All Methods	Condoms	Hormonals	Vaccines	ORS	All Methods	Condoms	Hormonals
9	Africa	Kenya	Public	exempt	exempt	exempt			exempt	exempt	exempt		
			Private NP	waiver	waiver	waiver			waiver	waiver	waiver		
			Private FP	waiver	waiver	waiver			waiver	waiver	waiver		
10	Africa	Madagascar	Public	exempt(6)	exempt(6)	exempt(6)			exempt(6)	exempt(6)	exempt(6)		
			Private NP	na	na	na			na	na	na		
			Private FP	na	na	na			na	na	na		
11	Africa	Malawi (7)	Public	exempt	exempt	exempt			exempt	exempt	exempt		
			Private NP	exempt	exempt	exempt			exempt	exempt	exempt		
			Private FP	waiver	na	pay (10%)			pay (20%)	pay (20%)	na		
12	Africa	Mozambique(8)	Public	exempt	exempt	exempt			exempt	exempt	exempt		
			Private NP	can't buy	can't buy	can't buy			can't buy	can't buy	can't buy		
			Private FP	can't buy	can't buy	can't buy			can't buy	can't buy	can't buy		
13	Africa	Senegal (9)	Public	waiver	waiver		exempt	waiver	exempt	exempt		exempt	exempt
			Private NP	waiver	waiver		exempt	waiver	exempt	exempt		exempt	exempt
			Private FP	waiver	waiver		exempt	waiver	exempt	exempt		exempt	exempt
14	Africa	Tanzania	Public	na	na	na			na	na	na		
			Private NP	exempt	exempt	exempt			exempt	exempt	exempt		
			Private FP	na	na	na			na	na	na		
15	Africa	Uganda	Public	pay tax	pay tax	pay tax			pay tax	pay tax	pay tax		
			Private NP	pay tax	pay tax	pay tax			pay tax	pay tax	pay tax		
			Private FP	pay tax	pay tax	pay tax			pay tax	pay tax	pay tax		
16	Africa	Zimbabwe (10)	Public	na	na	exempt			na	na	exempt		
			Private NP	na	na	reduc (5%)			na	na		pay (15%)	exempt
			Private FP	na	na	reduc (5%)			na	na		pay (15%)	exempt

Table 2-1 continued

				TAXES ON IMPORTS					VAT & SALES TAX				
				Contraceptives (1)					Contraceptives (1)				
	Region	Country	Buyer (2)	Vaccines	ORS	All Methods	Condoms	Hormonals	Vaccines	ORS	All Methods	Condoms	Hormonals
17	Africa	Zambia (11)	Public	na	na	na			na	na	na		
		Vit. A only	Private NP	na	na	na			na	na	na		
			Private FP	na	exempt	na			na	pay (17%)	na		
18	LAC	Bolivia	Public	exempt	exempt	exempt			exempt	exempt	exempt		
			Private NP	pay tax	pay tax	pay tax			pay tax	pay tax	pay tax		
			Private FP	pay tax	pay tax	pay tax			pay tax	pay tax	pay tax		
19	LAC	Brazil	Public	na	na	na			na	na	na		
			Private NP	na	na	pay tax	pay (10%)		na	na	pay tax		
			Private FP	na	na	pay tax	pay (10%)		na	na	pay tax		
21	LAC	Dominican Republic	Public	na	na	na			na	na	na		
			Private NP	pay tax	pay tax		pay (5%)	pay (10%)	pay tax	pay tax	na		
			Private FP	pay tax	pay tax		pay (5%)	pay (10%)	pay tax	pay tax	na		
20	LAC	Guatemala	Public	na	na	na			na	na	na		
			Private NP	pay tax (6)	pay tax (6)	pay tax (6)			pay tax (6)	pay tax (6)	pay tax (6)		
			Private FP	pay tax (6)	pay tax (6)	pay tax (6)			pay tax (6)	pay tax (6)	pay tax (6)		
22	LAC	Nicaragua	Public	waiver	waiver	waiver			waiver	waiver	waiver		
			Private NP	waiver	waiver	waiver			waiver	waiver	waiver		
			Private FP	waiver	waiver	waiver			waiver	waiver	waiver		

Notes:

(1) If a response applies to all methods of contraception, it is not repeated for condoms and hormonals.

(2) NP = non-profit, FP = for-profit

(3) Morocco: Thanks to USAID and PHR, import taxes (including customs duties) on vaccines were reduced from 37% to 2.5%, and VAT on vaccines were reduced from 20% to 7%.

(4) Eritrea: Private non-profit imports and local purchases are tax exempt only if they are for the non-governmental organization's own use.

(5) Ghana: Recently scrapped all tax exemptions, waivers, and reductions; waiver may be available to formally exempt groups.

(6) Need to confirm because respondent suggests we confirm or response was not clear.

(7) Malawi: Waiver of import and sales tax is possible for commodities sold to the government and those given away free to end-users.

(8) Mozambique: No private providers are allowed to buy commodities, only donors and the parastatal Medimoc.

(9) Senegal: Buyers of intrauterine devices (IUD) must pay 10% import duty, 20% customs duty, and 20% VAT.

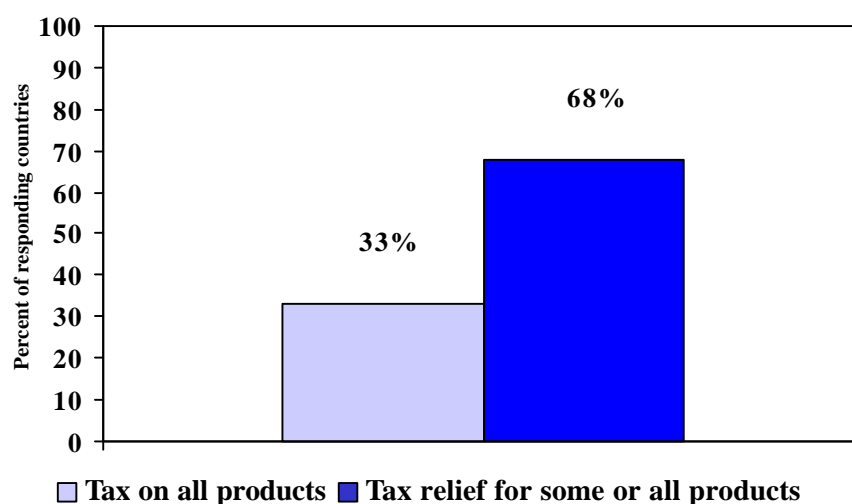
(10) USAID/Zimbabwe successfully lobbied to reduce import tax from 10% to 5% on all contraceptives.

(11) Zambia: Response refers to Vitamin A fortificant only.

3. Discussion of Findings

Of the 22 countries that responded to the survey, 68 percent (15 countries) had some type of tax relief (i.e., exemption, waiver, or reduction) for some or all of the commodities listed. The countries that stated that they provide some sort of tax relief were: Cambodia, Indonesia, Jordan, Morocco, Philippines, Eritrea, Kenya, Madagascar, Malawi, Mozambique, Senegal, Tanzania, Zimbabwe, Bolivia, and Nicaragua. (See Figure 3-1.)

Figure 3-1: Majority of Countries Provide Some Tax Relief



Of the three types of buyers—public sector, private non-profit, and private for-profit—the public sector benefitted most often from tax relief. Of the 15 countries with some type of tax relief, 87 percent (13 of 15) had tax relief (exemptions, waivers, reductions, or some combination) for the public sector for at least one of the three commodities. The percentage was 67 percent (10 of 15) for the private non-profit sector, and 53 percent (8 of 15) for the private for-profit sector.

The public sector also benefited most often from the most substantial form of tax relief (waivers or exemptions). Figure 3-2 shows the different import tax treatment of vaccines, ORS, and contraceptives for public sector purchases. Figure 3-3 illustrates the different VAT or sales tax treatment of the same three commodities when these commodities are purchased by the public sector. Seventy-one percent of responding countries granted exemptions or waivers on import taxes to the public sector for vaccines, while 69 percent granted the same relief for VAT or sales taxes. For ORS, 77 percent of countries granted exemptions or waivers on import taxes to the public sector, while 75 percent granted the same relief for VAT or sales taxes. These percentages were slightly lower, but still substantial, for public sector exemptions or waivers for contraceptives, 69 percent and 67 percent respectively.

Figure 3-2: Relief of Import Taxes for Public Sector

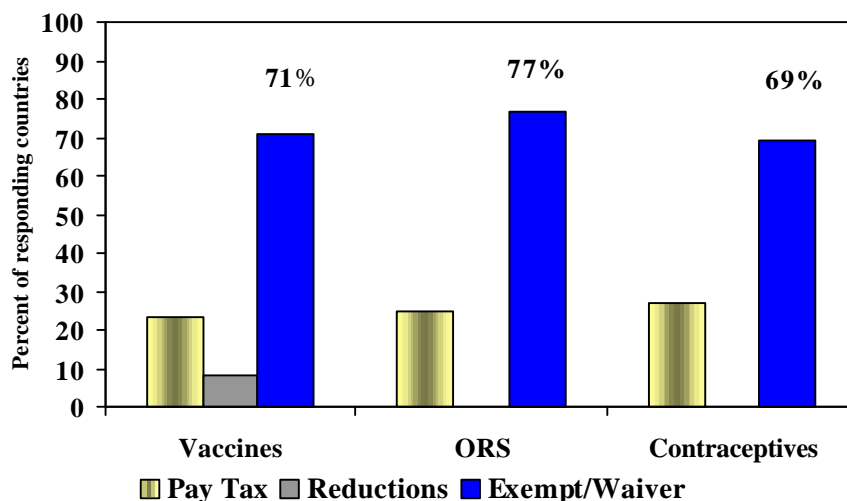
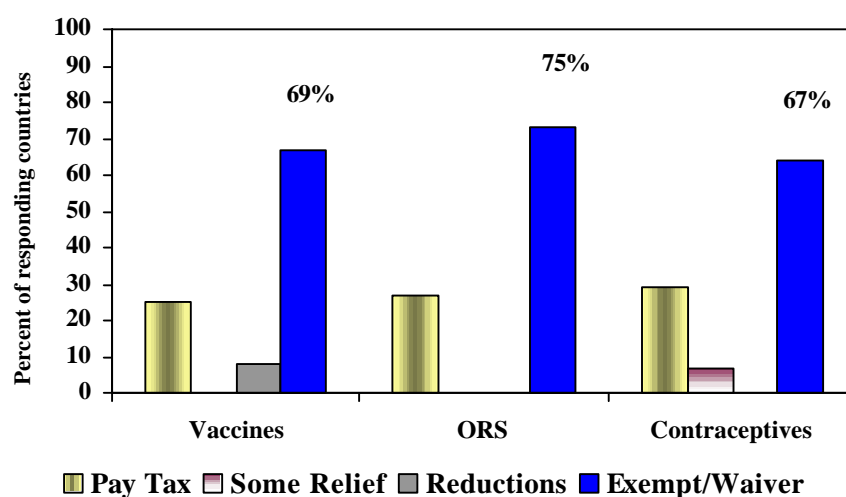


Figure 3-3: Relief of VAT/Sales Taxes for Public Sector



The percentage of countries which granted exemptions or waivers for the private non-profit sector was slightly lower than for the public sector. Figures 3-4 and 3-5 show the different import and VAT or sales tax treatment of vaccines, ORS, and contraceptives when these commodities are purchased by private non-profit entities. Fifty-three percent of responding countries granted exemptions or waivers on import taxes to the private non-profit sector for vaccines, while 57 percent granted the same relief for VAT or sales taxes. The percentages were slightly higher for ORS, 57 percent of countries granted exemptions or waivers on import taxes to the private non-profit sector, while 62 percent granted the same relief for VAT or sales taxes. These percentages were slightly lower, but still in the same range, for private non-profit exemptions or waivers for contraceptives, 42 percent and 53 percent respectively.

Figure 3-4: Relief of Import Taxes for Private Non-Profit Sector

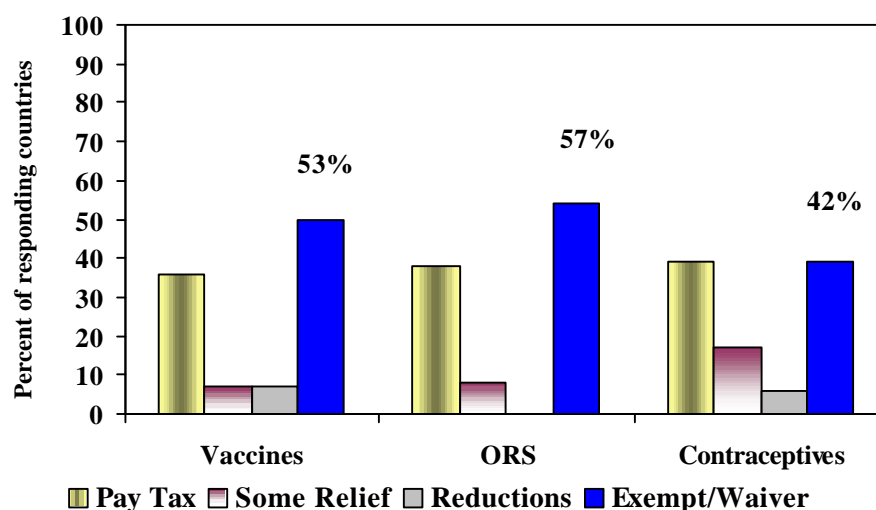
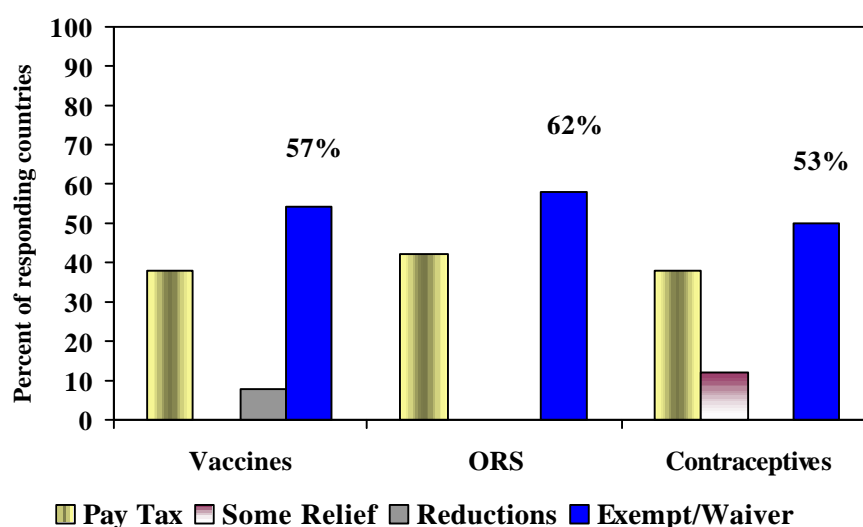


Figure 3-5: Relief of VAT/Sales Taxes for Private Non-Profit Sector



The private for-profit sector was least likely to benefit from tax relief. (See Figures 3-6 and 3-7.) For all three of the commodities and for both import and VAT or sales taxes, private for-profit purchasers were more likely to pay taxes than to be granted any type of tax relief. For vaccines, only 40 percent of responding countries granted exemptions or waivers on import taxes to private for-profit buyers, while 38 percent granted the same relief for VAT or sales taxes. The percentages were nearly identical for ORS; 43 percent of countries granted exemptions or waivers on import taxes to the private for-profit sector, while 38 percent granted the same relief for VAT or sales taxes. These percentages were lower for import taxes on contraceptives for private for-profit buyers (28 percent) exemptions or waivers for contraceptives, and similar (40 percent) to vaccines and ORS for VAT or sales tax.

Figure 3-6: Relief of Import Taxes for Private For-Profit Sector

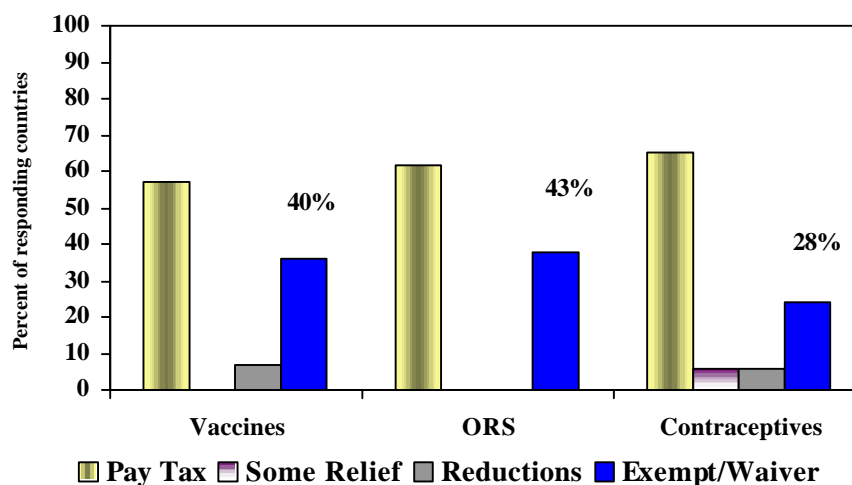
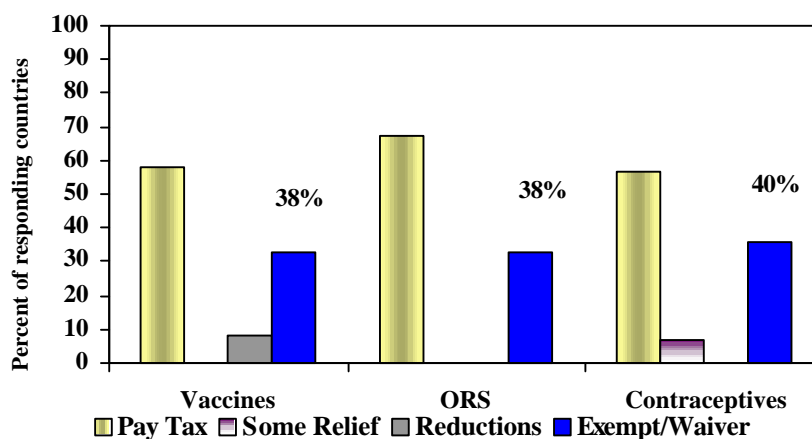


Figure 3-7: Relief of VAT/Sales Taxes for Private For-Profit Sector



Finally, four countries (Jordan, Philippines, Senegal, and Nicaragua) gave the public sector, the private non-profit, and the private for-profit sectors the same tax treatment. Two countries (Eritrea and Malawi) made private non-profit entities tax exempt, while taxing other buyers. In Tanzania, private non-profit entities were tax exempt, but data on the tax treatment of other buyers were unavailable.

There was little difference in the percentage of countries that granted import tax relief from the percentage that granted relief on VAT or sales taxes. If a country granted tax relief on imports of a commodity, the same country usually granted VAT or sales tax relief as well.

Tax treatment varied more by buyer than by commodity. There was little difference in the tax treatment among the three different commodities. ORS was only slightly more likely to benefit from tax relief than vaccines or contraceptives, and contraceptives were slightly less likely to

benefit than the other two products. The exceptions to this were Morocco (which had significant tax relief for vaccines, but none for contraceptives or ORS) and the Philippines and Zimbabwe (both of which had tax relief for contraceptives, but not for vaccines or ORS). In these three cases, the commodities that did not benefit from tax relief at the time of the survey have been either largely or completely provided as donations from bilateral or multilateral agencies. Donated commodities are nearly universally exempt from taxes.

Of the remaining seven (32 percent of the total) countries, six reported no tax relief: Djibouti (data on public sector were unavailable), Ghana, Uganda, Brazil (data were available only on contraceptives), Guatemala (data on public sector were unavailable), and the Dominican Republic (data on contraceptives were unavailable). The last country, Zambia, reported tax information only on Vitamin A fortifiers, and not other commodities. In Zambia, Vitamin A fortifiers are exempt from import taxes but subject to a 17 percent VAT tax on local purchases.

USAID Success Stories

Three respondents reported cases of successful USAID policy dialogue with government officials to reduce or eliminate taxes on condoms and vaccines. In Zimbabwe, with support from USAID and the PROFIT Project, the import tariff on condoms was reduced from 10 percent to 5 percent. In Senegal, with support from USAID and the POLICY Project, all taxes were eliminated on condoms. In Morocco, with support from USAID and the PHR Project, taxes on vaccines and other selected essential drugs were reduced from 57 percent to 9.5 percent.

4. The Process of Tax Waivers

The process for granting tax waivers varied greatly from country to country. In some cases, respondents speculated that the waiver procedures were so bureaucratic that potential beneficiaries were discouraged from attempting to file. Several respondents described the procedures and practices in their countries. A few responses are summarized below.

In Indonesia, tax waivers are available to public and private providers for both import and local sales taxes. When a government agency, using government funds, buys products from parastatal (government-owned) or private pharmaceutical companies, it must request a tax waiver from the tax office. After obtaining the waiver, the government agency deducts the tax from its payment. The seller (the parastatal or private pharmaceutical company), must retain documentation as proof that tax was correctly waived and not paid by the government agency. This same procedure applies to private buyers such as non-governmental organizations (NGO), hospitals, or clinics. However, an NGO staff person and a representative of a pharmaceutical company stated that private providers typically pay taxes when they purchase products. The respondents did not discuss why these private sector providers failed to take advantage of the waivers.

In Malawi, where import duties are 10 percent and the local sales tax is 20 percent, there are no taxes on health and family planning commodities purchased by public providers. NGOs can receive a waiver for import duties if the products they purchased will not be resold. If a private, for-profit firm wants to waive import taxes, it must apply for a license from the Ministry of Health and Population and complete a customs form. The Ministry has discretion over the processing and approval of such licenses.

In Cambodia, donor funds generally are used to import PHN commodities for the public sector on a tax-free basis. It is also possible to import commodities for social marketing at reduced tax rates when permission is granted by the Cambodian Development Council (CDC) and Ministry of Finance. Each year, organizations planning to import commodities for public/humanitarian purposes secure prior agreement from the MOH and then submit their import plans to the CDC, which in turn includes them on a master list. Organizations must request authorization from the CDC for each shipment of commodities, which then must be checked against the planned imports as recorded on CDC's master list. Even if these procedures are followed, there is no guarantee that the waiver will be granted. The CDC works with the Ministry of Finance to determine the tax treatment of each shipment request. There are no tax reductions for private for-profit providers.

In the Philippines, the process for private buyers, NGOs, and for-profit providers to obtain import duty waivers on each shipment of contraceptives involves five different agencies or institutions and takes 9-13 working days under ideal conditions. Private buyers are ineligible for any waiver of the 10 percent VAT. The process for public sector buyers of contraceptives to obtain waivers involves only two agencies, takes half the time, and waives both import duties and VAT.³

³Alano, B. and H. Cross. 1993. *An Analysis of Duties and Taxes on Contraceptive Imports in the Philippines, Summary Report*. Manila: Center for Economic Policy Research and The OPTIONS Project.

5. Impact of Tax Reform

This survey provides information on which countries have implemented tax reform for three public health commodities (vaccines, ORS, and contraceptives), and on the type and extent of that tax reform. It also presents some examples of the steps that public and private providers must take to obtain tax waivers. However, respondents had no information on the impact of tax reform. The obstacles to finding reliable information on the **impact** of tax reform is discussed below in terms of the obstacles to **achieving the intended impact** and **measuring the actual impact**.

5.1 Obstacles to Achievement

As stated earlier, the intended impact or objectives of tax relief on public sector health commodities include: lowering consumer prices, increasing private sector supply, reducing recurrent budgetary needs for the public sector (usually the ministry of health), reducing the administrative burden on the buyer, and reducing delivery times for buyers. Obstacles to achieving these objectives include:

- ▲ Lack of clarity on the intended and possible unintended effects (positive or negative) of tax relief can lead to poorly written and/or poorly implemented tax reform. This could result in failure to achieve intended impact. Obtaining clarity or transparency may prolong the negotiations among the various stakeholders on whether to undertake tax relief, but the process may help the various stakeholders achieve consensus on the larger goals for which the tax relief is being sought. Clarifying the intended and unintended effects will help countries structure and implement new tax regulation successfully. Such policy discussions also may lead to the establishment of a monitoring system to determine whether the new tax regulations are achieving their intended objectives and not causing unwanted or unintended side effects.
- ▲ Poor structuring of tax relief can defeat intended impacts, even if objectives are clear. For example, it is possible for a generous waiver of import taxes on condoms, intended to reduce consumer prices, to fail if distributors and retailers pocket all of the savings.
- ▲ Implementation problems can reduce the impact of tax relief policies, for example, if a country's waiver procedures are so bureaucratic that they discourage potential beneficiaries from attempting to file.

5.2 Obstacles to Measurement

Measuring the actual impact of tax relief can help policy makers identify both the obstacles to achieving objectives described above and the factors that create unintended effects (positive and negative). Obstacles to measuring impact include:

- ▲ Lack of baseline information, either on the price or supply of the commodities or on the average delivery times. This is especially true if the change in tax regulations occurred several years ago.
- ▲ Time and expense of collecting information on impacts of reform. Collecting price and supply information on a specific product can be complicated if it is sold at a wide range of prices at any moment in time. Measuring administrative burden, pipelines, and delivery times depends on the availability and accuracy of data from a variety of organizations.
- ▲ Influence of other factors on prices and supply such as inflation, changes in the exchange rate, or changes in manufacturing costs make it difficult to attribute observed changes in prices or supply to the changes in tax regulations. For example, the potential benefit of eliminating a 10 percent tax on imports can appear to be canceled out by a 10 percent devaluation of the local currency. In this case, if the devaluation is ignored it appears that the tax relief had no impact when in fact it helped reduce the effect of the currency devaluation. Another example is that if the base manufacturing cost of IUDs falls 10 percent around the same time that the local 10 percent sales tax on IUDs is eliminated, then the impact of the tax change could be exaggerated.

Ideally, efforts should be made to overcome the obstacles listed above to measure impact in order to document success or identify obstacles to achievement so corrective action can be taken.

To maximize the probability of success, policy makers should take time to clarify objectives and anticipate obstacles to achieving those objectives and factors that create unintended effects. Countries should prepare new tax regulations carefully, and countries should implement those regulations, especially in the case of tax waiver procedures, with the public health objectives in mind. Ideally, countries should measure actual impact in order to celebrate success or take corrective action.

6. Conclusions

Tax relief targeting key public health commodities such as vaccines, ORS, and contraceptives can be a useful tool to promote public health objectives. The most common reasons that countries pursue tax relief on these products is to reduce recurrent budgetary needs of the MOH, to make products more financially accessible to the population through reduced prices to consumers, or to provide an incentive to private health providers to increase their supply of these key products. In some cases, tax relief is pursued for all or a combination of these reasons.

The results of this survey show that tax reduction for these three key public health commodities is a common strategy used extensively in developing countries to achieve public health goals. Nearly three-quarters of the countries which responded to the survey reported some sort of tax relief for one or all three of the products. This was a much higher percentage than we expected to find. In addition, for a given commodity, there was little difference in the percentage of countries that granted import tax relief from the percentage that granted relief on value-added or sales taxes. There was also little difference in the tax treatment among the three commodities in most countries. In general, if a country had tax relief, it nearly always had similar relief for all three commodities. These results suggest that many countries are already sensitive to the need for tax relief for key public health products and are aware of the benefits that this relief can provide.

However, this survey also showed that tax relief is not always pursued consistently across commodities or across buyers, resulting in less-than-optimal benefits of this relief. Although most countries had similar tax relief for vaccines, ORS, and contraceptives, there were several notable exceptions. Greater inconsistencies were found in the tax treatment of different purchasers of these three products. By far, the public sector benefited most often from tax relief, while the private for-profit sector was least likely to benefit. The public sector also benefited most often from the most substantial form of tax relief (waivers or exemptions), and again, the private for-profit sector was the least likely to benefit from waivers or exemptions. Expansion of tax relief to the private non-profit and for-profit sectors could produce additional public health benefits in countries which already grant tax relief to the public sector, by increasing the supply of these products and/or by decreasing consumer prices. Tax relief for the private sector may be particularly important in situations where a country wants to expand services to the poor, as well as other income groups, through the private sector.

In countries where tax waivers are used, the process of granting waivers varied greatly from country to country. In some cases, the procedures for granting tax waivers were so complex and bureaucratic that they discouraged potential buyers from filing. Thus, another way in which the benefits of tax relief can be increased is for countries to streamline bureaucratic procedures so that potential recipients will not be discouraged from filing for waivers.

Ministries of health and private providers who purchase vaccines, ORS, and contraceptives can strengthen their case in arguing for tax waivers for these three key public health commodities in their own countries using the results of this survey. Nearly three-quarters of the countries which responded to the survey reported some sort of tax relief. Extending tax relief to all three public health products and all three sectors would maximize the potential public health benefits. Granting tax exemptions rather than waivers or reducing the administrative burden associated with obtaining waivers would also be likely to result in additional benefits.

Annex: List of Contacts

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